

## Energy Bill 2005 Financial Incentives

### Renewable Energy

#### *Business Energy Tax Credit*

A federal energy tax credit for businesses that invest in or purchase solar equipment, geothermal energy property, fuel cells or microturbines in the United States. For eligible equipment installed from January 1, 2006 through December 31, 2007, the credit is set at 10% of expenditures for geothermal energy property and microturbines (less than 2 kW) and 30% of expenditures for solar technologies (except systems used to heat swimming pools), fuel cells (minimum 0.5 kW), and solar hybrid lighting. The credit for fuel cells is capped at \$500 per 0.5 kW of capacity. The maximum microturbine credit is \$200 per kW of capacity. No maximum is specified for the other technologies. The tax credit for solar energy property and solar hybrid lighting installed on or after January 1, 2008 reverts to 10% and remains at 10% for geothermal energy property.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart E, Section 48A)

#### *Renewable Energy Production Tax Credit*

A ten-year, 1.9 cent per kilowatt-hour tax credit for electricity generated by wind, closed-loop biomass, geothermal energy and solar energy. Electricity from open-loop biomass, small irrigation hydroelectric, landfill gas, municipal solid waste resources, and hydropower receive 0.9 cents/kWh for ten years, but open-loop biomass, solar, geothermal, small irrigation hydro, landfill gas, and municipal solid waste combustion facilities placed into service after 10/22/04 and before enactment of the Energy Policy Act of 2005 (8/8/05) are eligible for the credit only for a five-year period. Refined-coal facilities will receive \$4.375 per ton (indexed for inflation) for a 10-year term. Indian coal production facilities will receive an increase in tax credit during the 7-year period beginning January 1, 2006 in the amount of \$1.50/ton through 2009, and \$2.00/ton after 2009.

To take advantage of the credit, solar installations must be completed before January 1, 2006. All other eligible resources must be installed before January 1, 2008.

Note, however, that owners of solar and geothermal projects who claim the federal *Business Energy Tax Credit* may not also claim this production tax credit.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 45)

#### *Biodiesel Tax Credit Extension*

Provides a tax credit for biodiesel in the amount of \$1.00/gallon for agri-biodiesel and 50 cents/gallon for biodiesel made from other sources. The credit equates to one penny per percent of biodiesel in a fuel blend made from agricultural products like vegetable oils, and one-half penny per percent for recycled oils. The tax credit is now available through December 31, 2008.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 40A)

*Biodiesel Production Tax Credit*

A 10-cents-per-gallon tax credit for agri-biodiesel produced by small producers. The credit is applicable up to 15 million gallons of agri-biodiesel produced and limited to producers under 60 million gallons of annual production. The credit is available for taxable years ending after 8/8/2005 and through December 31, 2008.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 40A)

*Small Ethanol Producer Tax Credit Expansion*

Expands definition of "small ethanol producer" to 60 mgy. The tax credit is equal to 10 cents per gallon on up to 15 million gallons of qualified ethanol fuel production for any tax year.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 40G)

*Alternative Fuel Vehicle Refueling Infrastructure Tax Credit*

A 30% tax credit for the cost of installing clean-fuel vehicle refueling equipment to be used in a trade or business or installed at the principal residence of the taxpayer. Clean fuels must contain at least 85% ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen. Biodiesel blends of 20% or higher also qualify. The maximum tax credit for commercial use is \$30,000; and the maximum credit for residential use is \$1,000. The credit is effective for equipment placed in service in between January 1, 2006 and December 31, 2009. Hydrogen-refueling property is eligible for a tax credit through December 31, 2014.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart B, section 30C)

*Fuel Cell, Hybrid, Alternative Fuel and Mixed Fuel Vehicle Tax Credit*

The amount of the tax credit varies depending on the weight and the rated fuel economy of the vehicle, as demonstrated in the following table.

Vehicle Technology	Tax Credit Range	Eligible Purchase dates
Passenger and Light Truck Hybrid technology	\$400 to \$3,400	January 1, 2006 – December 31, 2009
Other hybrid technology	\$1,500 to \$12,000	January 1, 2006 –December 31, 2010
Advanced lean-burn technology	\$400 to \$3,400	January 1, 2006 – December 31, 2010
Fuel cell technology	\$4,000 to \$44,000	January 1, 2006 – December 31, 2014
Alternative-fuel technology	\$2,500 to \$32,000	January 1, 2006 – December 31, 2010

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart B, section 30B)

*Residential Solar and Fuel Cell Tax Credit*

A 30% tax credit for the purchase and installation of qualified solar water-heating equipment, photovoltaic devices and fuel cell equipment used exclusively for purposes other than heating swimming pools and hot tubs, with an annual maximum of \$2,000 for solar-related equipment and a maximum of \$500 per 0.5 kW for fuel cell equipment. The credit is available for equipment placed into service between January 1, 2006 and December 31, 2007.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart A, section 25D)

*Clean Renewable Energy Bonds*

A tax credit for purchasers of clean renewable energy bonds. A mutual or cooperative electric company or a government body may issue clean renewable energy bonds. Bonds must be issued after December 31, 2005 but before January 1, 2008 for a qualifying project.

(Internal Revenue Code, Subtitle A, Chapter 1, subchapter A, part IV, section 54)

**Energy Efficiency**

*Residential Energy Efficient Improvements Tax Credit*

A 10% individual tax credit for energy-efficient improvements made to existing homes, and 100% individual tax credit for the amount of energy property expenditures, with a life-time maximum of \$500 (individual equipment category maximums may apply). Specifically, the following are eligible energy-efficient improvement expenses: energy-efficient insulation, doors, Energy Star pigmented metal roofs, and windows. The following are eligible energy property expenditures: highly-efficient central air conditioners, furnaces, heat pumps, boilers, water heaters and advanced main air circulating fans. The improvements must be made between January 1, 2006 and December 31, 2007.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart A, section 25c)

*Energy Efficient Appliance Manufacturer Tax Credit*

Tax credits for manufacturers of energy-efficient appliances, which could be passed along to consumers. The tax credits include: \$75-\$175 per refrigerator, depending on efficiency; \$100 for clothes washers that meet the Energy Star criteria (effective 2007); and up to \$100 for dishwashers, depending on Energy Star criteria that are yet to be determined. The tax credits are available for appliances manufactured between January 1, 2006 and December 31, 2007 and may be subject to individual manufacturer limits.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 45M)

*Energy Efficient Commercial Buildings Tax Credit*

A tax credit equal to the amount of energy efficient commercial building property. Maximum tax credit of \$1.80 per square foot of the building for energy efficient commercial buildings meeting a 50% energy reduction compared to the 2001 ASHRAE 90.1 model commercial code requirements. Partial credits up to \$0.60 per square foot are also available in some situations. Allowable equipment includes lighting, heating cooling, ventilation, and hot water systems and building envelope components. ***If the commercial building is the property of federal, state or local government, or a political subdivision thereof, the primary building designer may take the tax credit.*** The tax credit is available for property placed into service between January 1, 2006 and December 31, 2007.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter B, part VI, section 179D)

*Business Tax Credit for Construction of Energy Efficient Homes*

A tax credit to contractors for the construction of new energy-efficient homes. The credit equals \$2,000 for homes that reduce energy consumption by 50% compared to the 2004 IECC code and \$1,000 for Energy Star manufactured homes that reduce energy consumption by 30%. The provision applies to homes acquired between January 1, 2006 and December 31, 2007.

(Internal Revenue Code, Subtitle A, chapter 1, subchapter A, part IV, subpart D, section 45L)